

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-01
PRS-01 AGRE-00 ITC-01 L-03 EURE-00 /086 W
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P R 021759Z MAR 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC PRIORITY 0383
INFO AMEMBASSY BONN
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AMCONSUL PONTA DELGADA

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 1671

DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: N/A
TAGS: EFIN, ECON, PO
SUBJ: IMPORTANT GOP PRICE AND FINANCIAL MEASURES

REF: LISBON 1554

SUMMARY: DIARIO DA REPUBLICA OF FEBRUARY 28 CONTAINED BULK OF
MEASURES OUTLINED IN REFTEL. SOME OF MOST IMPORTANT MEASURES
ARE SUMMARIZED IN THIS TELEGRAM; OTHER MEASURES WILL BE REPORTED
SUBSEQUENTLY. MEASURES REPORTED HEREIN INCLUDE PRICES FOR ITEMS
IN BASIC CONSUMER BASKET, AS WELL AS REVISED BANK INTEREST
RATES AND RESERVE REQUIREMENTS. FROM GOP STANDPOINT, REACTIONS
TO ITS ECONOMIC MEASURES HAVE BEEN INCREASINGLY DISAPPOINTING.
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SPOT SHORTAGES HAVE OCCURRED IN STORES, AGGRAVATING CONSUMER
DISCONTENT WITH MERCHANT "SPECULATION". PUBLIC IS ASSOCIATING
PRICE INCREASES DIRECTLY WITH ALLEGED FOREIGN-IMPOSED
DEVALUATION.
END SUMMARY.

BEGIN UNCLASSIFIED

1. AS REPORTED IN REFTEL GOP HAS PLEDGED TO MAINTAIN FOR 12 MONTHS PRICES OF LIMITED LIST OF ESSENTIALS INCLUDED IN BASIC "CONSUMER BASKET" (CABAZ DE COMPRAS). HOWEVER, GOP HAS RAISED PRICES OF MANY ITEMS BEFORE INCLUDING THEM IN BASKET. PRODUCTS LISTED BELOW ARE INCLUDED. FOR SOME ITEMS, PRICES VARY DEPENDING ON QUALITY, TYPE, SIZE OF PACKAGE, OR BRAND. ALL PRICES LISTED IN ESCUDOS, NEW RATE OF WHICH IS 38.726 ESCUDOS/DOLLAR.

	UNIT	OLD RATE	NEW PRICE	PERCENT CHANGE
BREAD -1ST/2ND QUALITY	KILO	12.00/5.50	16.00/10.60	PLUS33.3/92.7
MACARONI PRODUCTS	"	8.80-13.70	9.80-15.10	PLUS10.2-11.4
CRACKERS	"	28.00-32.80	33.00-38.60	PLUS17.7-18.1
FLOUR, WHEAT	"	9.00-9.20	10.30-10.90	PLUS14.4-18.5
RICE	"	7.50-15.00	UNCHANGED	
SUGAR	"	18.50-19.50	UNCHANGED	
COOKING OILS	LITER	31.50-34.50	36.00-40.00	PLUS14.3-15.9
MARGARINE	KILO	35.50/41.20	39.50/50.00	PLUS11.3/21.4
MILK				
BULK	LITER	4.90	6.00	PLUS22.4
PASTEURIZED	"	6.30	7.00	PLUS11.1
SPECIAL PROCESS	"	9.00-10.00	12.00-13.50	PLUS31.6-42.1
POWDERED NON-INSTANT	KILO	62.00-70.00	80.00-84.00	PLUS20.0-29.0
FROZEN FISH (WHITING)	"	30.00-50.00	UNCHANGED FROM PRICES SET IN JANUARY 1977	
FROZEN BEEF				
1ST/2ND/3RD QUALITY	"	100./64./48.	130./80./50.	PLUS30/25/4.2
MORTADELA (ITALIAN-TYPE				
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SAUSAGE)	"	N/A	95.00	N/A
EGGS	DOZEN	22.70-30.00	28.50	-
FRANKFURTERS	KILO	N/A	20.50	N/A
LAUNDRY SOAP	1/2K. BAR	5.60	6.90	PLUS23.2
CITY GAS, BUTANE,				
ELECTRICITY				UNCHANGED FROM RATES REPORTED IN LISBON 619.

2. INTEREST RATES: THE NEW INTEREST RATE REGULATIONS WERE ISSUED BY THE BANK OF PORTUGAL AND PUBLISHED IN THE DIARIO DA REPUBLICA OF FEBRUARY 28. THE NEW RATES, AND A COMPARISON WITH FORMER RATES, ARE AS FOLLOWS:

	OLD RATE PERCENT	NEW RATE PERCENT
A. DISCOUNT RATE	6.5	8.0
B. REDISCOUNT RATE	6.5	8.0/9.5/12.0

NOTE: THIS RATE WILL BE SCALED IN RELATION TO THE ASSETS OF EACH FINANCIAL INSTITUTION. THE NEW REGULATIONS DO NOT MENTION THE EXISTING SYSTEM OF REDUCED REDISCOUNT RATES (3 OR 4.5 PERCENT FOR SPECIAL OPERATIONS. THE GOVERNMENT SAVINGS

BANK (CAIXA GERAL DE DEPOSITOS) WILL HENCEFORTH BE ALLOWED
TO REDISCOUNT MEDIUM TERM INVESTMENT LOANS AT A RATE 1 PERCENT
ABOVE THE CENTRAL REDISCOUNT RATE IN THE FIRST YEAR, AND
3 PERCENT ABOVE IN THE SECOND YEAR.

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DEPT PASS TREASURY FOR SYVRUD

C. RATE FOR LOANS SECURED BY	7.5	9.5
GOVERNMENT BONDS		
D. RATE FOR LOANS SECURED BY		
COMMERCIAL PAPER OR		
OTHER ASSETS	12.0	12.0
E. MAXIMUM INTEREST RATES FOR		
NORMAL LOAN OPERATIONS		
- LESS THAN 90DAYS	8.75	10.25
90-180 DAYS	9.25	10.75
180 DAYS-1 YEAR	10.50	12.00
1-2 YEARS	11.25	12.75
2-5 YEARS	12.25	13.75
5-7 YEARS	12.75	14.25

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MORE THAN 7 YEARS	13.25	14.75
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NOTE: THE ABOVE RATES WILL BE REDUCED BY 3 PERCENTAGES POINTS FOR LOANS IN SUPPORT OF AGRICULTURE, FORESTRY, FISHERIES, OR EXPORTS. THE RATES ON LOANS FINANCING NEW INVESTMENT WILL BE REDUCED BY 5 PERCENTAGE POINTS IN THE FIRST TWO YEARS, BY 4 PERCENTAGE POINTS IN THE THIRD YEAR, AND BY 3 PERCENTAGE POINTS IN THE FOURTH YEAR. THE BANK OF PORTUGAL WILL ESTABLISH SPECIAL RATES FOR LOANS DESIGNED TO REESTABLISH THE FINANCIAL HEALTH OF FIRMS IN DIFFICULTY.

F. INTEREST PAID ON CHECKING ACCOUNTS - AS BEFORE, ONLY INDIVIDUAL DEPOSITORS (NOT COMMERCIAL OR OTHER ENTITIES) CAN BE PAID INTEREST ON CHECKING ACCOUNTS. COMMERCIAL BANKS CAN CONTINUE TO PAY 1 PERCENT INTEREST, WHILE OTHER FINANCIAL INSTITUTIONS CAN PAY 4 PERCENT ON DEPOSITS NOT EXCEEDING 70,000 ESCUDOS, AND 2 PERCENT ON LARGER AMOUNTS.

G. INTEREST PAID ON TIME DEPOSITS

-30-90 DAYS	4.5	5.0
-90-180 DAYS	6.5	7.5
-180 DAYS-1 YEAR	9.5	11.0
-1-2 YEARS	10.5	12.0
-MORE THAN 2 YEARS	11.5	13.0

H. INTEREST PAID ON "SAVINGS DEPOSITS" (SPECIAL ESCUDO ACCOUNTS FOR EMIGRANTS)

-FIRST YEAR	10.50	12.00
-SECOND YEAR	10.75	12.25
-THIRD YEAR	11.00	12.50
-FOURTH YEAR	11.25	12.75
-FIFTH YEAR AND BEYOND	11.50	13.00

I. INTEREST PAID ON SPECIAL HARD CURRENCY ACCOUNTS FOR EMIGRANTS

CURRENCY	SIX MONTH DEPOSITS PERCENT	1 YEAR DEPOSITS PERCENT
-POUND	10	10.5
-FRENCH FRANC/ CANADIAN DOLLAR	8	8.5
-U.S. DOLLAR/		

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BELGIAN FRANC	7	7.5
-DEUTSCHMARK/GUILDER	6.5	7
-SWISS FRANC	5	5.5

3. DEPOSIT CERTIFICATE/EARLY WITHDRAWAL - DECREE-LAW 75-B/77 OF FEBRUARY 28 REQUIRES THAT BANKS ISSUE CERTIFICATES FOR ALL NEW TIME DEPOSITS. CERTIFICATE OWNERSHIP CANNOT BE TRANSFERRED

BETWEEN INDIVIDUALS. A DECREE OF DECEMBER 1975 PROHIBITED EARLY WITHDRAWALS OF TIME DEPOSITS. THE NEW DECREE PERMITS AGREEMENT BETWEEN BANK AND DEPOSITOR ALLOWING EARLY WITHDRAWAL OF ALL OR PART OF DEPOSIT. ACCORDING TO BANK OF PORTUGAL NOTICE ISSUED FEBRUARY 28, TIME DEPOSITS WITHDRAWN WITHIN 30 DAYS OF DEPOSIT RECEIVE NO INTEREST. INTEREST PAID ON WITHDRAWALS MADE AFTER 30 DAYS WILL BE SCALED BY LENGTH OF TIME DEPOSIT WAS LEFT IN BANK. RATES ARE AS FOLLOWS:

DURATION OF DEPOSIT	DEPOSITS MADE BEFORE MARCH 1,	DEPOSITS MADE AFTER MARCH 1,
	1977 PERCENT	1977 PERCENT
30-90 DAYS	3.0	3.5
90-180 DAYS	5.5	6.5
180 DAYS-1 YEAR	9.0	10.5

4. BANK RESERVE REQUIREMENTS: IN CONJUNCTION WITH INTEREST RATE CHANGES, BANK OF PORTUGAL CHANGED RESERVE REQUIREMENTS EFFECTIVE MARCH 1. FORMER RESERVE REQUIREMENTS, IN EFFECT SINCE DECEMBER, 1975, WERE AS FOLLOWS:

9 PERCENT OF IMMEDIATELY CALLEABLE LIABILITIES
7 PERCENT OF LIABILITIES CALLEABLE BETWEEN 30 TO 90 DAYS.
6 PERCENT OF LIABILITIES CALLEABLE BETWEEN 90 TO 180 DAYS.
4 PERCENT OF LIABILITIES CALLEABLE BEYOND 180 DAYS.

NEW RESERVE REQUIREMENTS ARE:

7 PERCENT OF LIABILITIES CALLEABLE WITH 30 DAYS.
4 PERCENT OF LIABILITIES CALLEABLE BEYOND 30 DAYS.
IN ADDITION, BANK OF PORTUGAL DECREASED FROM 60 PER. TO 50 PER.
MAXIMUM PROPORTION OF REQUIRED RESERVES WHICH CAN BE HELD AS CASH ON HAND.

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5. BANK MERGERS: UNDERWAY: FEBRUARY 28 DIARIO DA REPUBLICA ANNOUNCED THAT BANCO INTERCONTINENTAL PORTUGUESE, (BIP) WILL BE DISSOLVED AND MERGED INTO BANCO PINTO & SOTTO MAYOR, EFFECTIVE APRIL 1. PRINCIPAL RATIONALE WAS 6 BILLION ESCUDOS IN UNJUSTIFIED AND UNRECOVERABLE LOANS MADE BY BIP TO FORMER DIRECTORS. IN ADDITION, GOP APPROVED VARIOUS MEASURES DESIGNED TO REESTABLISH FINANCIAL POSITION OF BANCO BORGES E IRMAO AND BANCO PINTO DE MAGALHAES. (DETAILS FOLLOW).

6. TAX PAYMENTS: CONTRARY TO IMPRESSION GIVEN IN REFTTEL, GOP HAD NOT APPROVED SYSTEM OF BANK LOANS TO PAY COMPLEMENTARY INCOME TAX. INSTEAD, GOP APPROVED DECISION TO ALLOW DEFERRED PAYMENT, WHEN NECESSARY. END UNCLASSIFIED

7. FURTHER REACTIONS: FROM GOP STANDPOINT, REACTIONS TO ITS FEB. 25 EMERGENCY MEASURES HAVE BEEN INCREASINGLY DISAPPOINTING:
--PARTIES: MOST SERIOUS DEVELOPMENT WAS DEMAND BY SOCIAL DEMOCRATS FOR FORMAL ASSEMBLY OF REPUBLIC DEBATE ON ECONOMIC MEASURES. IN MAR. 1 TELEVISED DISCUSSION, PSD LEADER SA CARNEIRO EXPLAINED THAT

PSD MOVE WAS BASED ON GOP'S ALLEGED FAILURE TO CLARIFY ADEQUATELY ASSUMPTIONS BEHIND MEASURES. HE SAID PSD WOULD WITHHOLD ITS ENDORSMENT OF MEASURES UNTIL FULL AIRING OF QUESTION IN ASSEMBLY DEBATE. FREITAS DO AMARAL, DURING SIMILAR TELEVISION INTERVIEW, TOOK NEUTRAL POSITION. HE RECOGNIZED NECESSITY OF MEASURES, BUT STATED THEY WERE OVERDUE AND SUGGESTED CDS SUPPORT WOULD DEPEND ON GOP PERFORMANCE IN IMPLEMENTING THEM. IN PUBLIC SPEECH FOLLOWING DAY, HOWEVER, HE TOOK SOMEWHAT MORE SUPPORTIVE STANCE. CUNHAL PREDICTABLY PANNED MEASURES AS ATTEMPT TO PROMOTE "CAPITALIST", NOT ECONOMIC, RECOVERY.

--PRIVATE SECTOR: CONFEDERATION OF PORTUGUESE INDUSTRY (CIP), LARGEST SPOKESMAN FOR PORTUGUESE PRIVATE SECTOR, ENDORSED MEASURES AS INDISPENSABLE. CIP WARNED, HOWEVER, THAT MEASURES ALONE COULD NOT EFFECT RECOVERY, AND ENCOURAGED GOP TO TAKE STRONG LEAD IN GUARANTEEING LABOR HARMONY.

--MARKET PLACE: SPOT SHORTAGES OF CERTAIN ITEMS OCCURRED IN LISBON AS CONSUMERS ATTEMPTED STOCK UP BEFORE ANNOUNCED PRICE INCREASES LIMITED OFFICIAL USE

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BECOME EFFECTIVE. THERE HAVE BEEN REPORTS THAT RETAILERS ARE HOLDING BACK MERCHANDISE TO MARK UP AT NEW, HIGHER PRICES. NUMEROUS BUYERS COMPLAINED ABOUT SUPPOSED MERCHANT "SPECULATION". SIMULTANEOUS ANNOUNCEMENT OF DEVALUATION AND PRICE INCREASED HAS FUELED PUBLIC BELIEF THAT HIGHER PRICES ARE CAUSED BY FOREIGN-IMPOSED DEVALUATION, RATHER THAN BY UNDERLYING, LONG-DISGUISED DISEQUILIBRIUM BETWEEN PRODUCTION COSTS AND FINAL PRICES.
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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